Manitoba Finance
Debt Retirement Fund

Annual Report
2003-2004

Manitoba

105-00192/

MINISTER OF
FINANCE

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

HIS HONOUR JOHN HARVARD
Lieutenant-Governor of the Province of Manitoba
Winnipeg, Manitoba

May It Please Your Honour:

The undersigned has the honour to present the Annual Report of the Debt Retirement Fund for the year ended March 31, 2004.

Respectfully submitted,

Honourable Greg Selinger
Minister Responsible for the
Debt Retirement Fund

FUND PROFILE

The Debt Retirement Fund (Fund) was established by *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act* (previously Taxpayer Protection), which received Royal Assent on November 3, 1995 and was amended in August 2000.

The original Act requires that the Government not incur a deficit in any year (subject to limited exceptions), that it gradually retire the general purpose debt of the Province, and that it not increase the rates of major taxes without prior approval of the voters of Manitoba in a referendum. The objectives of the Act were: (a) to prevent any further increase in the general purpose debt of the Province; (b) to provide for the retirement of the general purpose debt, so that the resources devoted to paying interest on the debt may be devoted instead to providing public services or reducing taxes; and (c) to ensure that there would be no increases in the rates of major taxes without the prior approval of taxpayers.

The amendments made in August 2000 added a plan to retire the government's pension liability as well as the general purpose debt. In addition, the government is now precluded from using the proceeds from the sale of Crown corporations to balance the budget or bolster the Fiscal Stabilization Fund.

The Fund is a mechanism for retiring the accumulated debt and pension liability. A formula in the Act specifies the minimum amount that must be deposited into the Fund each year. This minimum deposit requirement increases as the debt is reduced. The Minister of Finance may deposit a larger amount in any year. The assets of the Fund are on deposit with the Minister of Finance. The funds are invested and accorded market rates of interest.

The amendment to the Act requires that at minimum, the Province must, from the annual deposits to the Fund, set aside for pension obligations an amount equal to pension contributions made by employees and teachers hired on or after April 1, 2000.

All money deposited in the Fund, along with any interest earned, can only be used to reduce the pension liability and general purpose debt of the Province. The amounts to be contributed to each of pensions and debt are determined annually by a Debt Retirement Fund Allocation Committee appointed under the Act by the Lieutenant-Governor in Council.

Funds allocated for pension purposes are transferred out annually. Those designated for debt retirement are transferred to the Operating Fund to retire debt as appropriate or at minimum every five years.

2003-2004 ACTIVITIES

A payment of $96 million was made into the Fund in 2003-2004.

In accordance with the allocation as determined by the Debt Retirement Fund Allocation Committee, $75 million was transferred out for pension liability purposes.

The remaining $21 million was designated for debt retirement and remains in the Fund at year end, along with interest.

DEBT RETIREMENT FUND

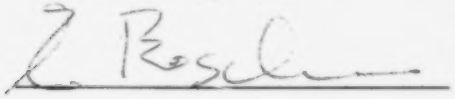
MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management of the Department of Finance and have been prepared in accordance with generally accepted accounting principles. These accounting principles have been applied on a basis consistent with that of the preceding year. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding estimates and all other data available up to September 27, 2004.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and to properly safeguard assets of the Fund.

The responsibility of the Auditor General is to express an independent, professional opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management



Deputy Minister of Finance (Acting)
September 27, 2004

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

To the Legislative Assembly of Manitoba

I have audited the statement of financial position of the Debt Retirement Fund as at March 31, 2004 and the statement of revenue and fund balance for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba
September 27, 2004

Jon W. Singleton, CA•CISA
Auditor General

DEBT RETIREMENT FUND
STATEMENT OF FINANCIAL POSITION

As at March 31, 2004
(in thousands)

	2004 $	2003 $
ASSETS		
Funds on Deposit with the Minister of Finance	180,325	151,850
	180,325	151,850
FUND BALANCE		
Fund Balance	180,325	151,850

DEBT RETIREMENT FUND
STATEMENT OF REVENUE AND FUND BALANCE

For the Year Ended March 31, 2004
(in thousands)

	2004 $	2003 $
Revenue		
Interest Income	7,118	3,228
Fund Balance, beginning of year	151,850	100,444
	158,968	103,672
Transfers		
Transfer from the Operating Fund (Note 4)	96,357	96,357
Transfers for Pension Obligation (Note 4)	(75,000)	(48,179)
	21,357	48,178
Fund Balance, end of year	180,325	151,850

DEBT RETIREMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

1. Incorporation and Function

The Debt Retirement Fund was established under the authority of the Balanced Budget, Debt Repayment and Taxpayer Protection Act, which received Royal Assent on November 3, 1995. The purpose of the Fund was to assist in the orderly repayment of debt pursuant with sections 8(4) and 8(6) of the Act.

On August 18, 2000, the Balanced Budget, Debt Repayment and Taxpayer Protection Amendment and Consequential Amendments Act was passed amending The Balanced Budget, Debt Repayment and Taxpayer Protection Act, with related amendments to The Fiscal Stabilization Fund Act and The Financial Administration Act. The Bill changed the name of the Act to The Balanced Budget, Debt Repayment and Taxpayer Accountability Act. This Act is deemed to have come into force on April 1, 2000 and applies to fiscal years commencing after March 31, 2000.

2. Significant Accounting Policies

a) Basis of Accounting

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

b) Funds on Deposit with the Minister of Finance

Cash equivalents are recorded at cost which approximates market value. Portfolio investments are recorded at cost.

3. Funds on Deposit with the Minister of Finance

	(thousands)	
	2004	2003
	$	$
Cash and cash equivalents	41,723	151,850
Portfolio investments	137,088	-
Accrued interest receivable	1,514	-
Total	180,325	151,850

The market value of the portfolio investments as at March 31, 2004 is $140,040.

4. Transfer for Debt Retirement and Pension Obligation

The government transferred $96 million to the Debt Retirement Fund from the Operating Fund in 2003/04 for the specific purpose of reducing general purpose debt and pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund. The transfer was made in accordance with subsection 8(4) of The Balanced Budget, Debt Repayment and Taxpayer Accountability Act. In accordance with subsection 8(6) of the Balanced Budget, Debt Repayment and Taxpayer Accountability Act, the Debt Retirement Fund Allocation Committee allocated $75 million to pension liabilities for 2003/04. This amount was transferred to the Pension Asset Fund for the specific purpose of reducing pension obligations with the Civil Service Superannuation Fund and the Teachers' Retirement Allowances Fund.

5. Statement of Cash Flows

A statement of cash flows has not been presented in these financial statements as no additional useful information would be provided by its inclusion.

6. Subsequent Event

In April 2004 an amount of $96 million was transferred from the Operating Fund in accordance with subsection 8 (4) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*. The Debt Retirement Fund Allocation Committee approved an allocation of $75 million for the future retirement of the pension obligation. Subsequently, in accordance with subsection 8 (6) of *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*, which requires the balance in the Debt Retirement Fund to be transferred to the Operating Fund at least once every 5 years for the purpose of reducing general purpose debt, the Government transferred $202 million from the Debt Retirement Fund to the Operating Fund. This transfer comprised the fund balance of $180 million as at March 31, 2004 plus the 2004/05 net transfer in of $22 million including interest earned to the date of transfer in April 2004.